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SUBJECT: SMA NEGOTIATIONS ROUND V: TOWARDS THE FINAL ROUND

Classified By: EAP/K ANDREW HYDE FOR REASONS 1.4(b) and (d).

11. (C) SUMMARY. Round Five of negotiations on funding levels for the Special Measures Agreement (SMA) between the United States and Republic of Korea (ROK) took place at the State Department on November 13, 2006. Lasting one day, the talks concluded with the two parties falling short of a final figure for future South Korean contributions to United States Forces Korea (USFK),s Non-Personnel Stationing Cost (NPSC). Nevertheless, the Koreans appear to be moving away from their insistence on further cuts in SMA to, at a minimum, straightlining their contribution or even agreeing to a moderate increase. In a series of small group, plenary, and one-on-one meetings, the two sides discussed each other,s specific methods of cost calculation, as well as larger differences in how they interpreted the concept of equitable contribution to the alliance. Both sides also spoke about internal political pressures they faced in reaching an agreement, and concluded this round of talks by committing to what they hoped would be a final session of negotiations later this month. END SUMMARY

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MORNING THREE-ON-THREE MEETING  
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12. (C) The negotiations started with the smaller delegations from both sides reviewing the results of an October 31 meeting in Seoul at the Ministry of Foreign Affairs and Trade (MOFAT) that was held to review U.S. cost calculations and consider some alternative ROK baselines in particular categories. Heads of delegation Ambassador Robert Loftis and Ambassador Cho Tae-yong agreed that this meeting had been productive and led to a better understanding on both sides about the basis and rationale for many of the expense calculations.

13. (C) Next, Cho described the time pressures MOFAT faced to wrap up the negotiations and deliver a proposal to the National Assembly prior to the final approval of the national budget by the end of the year. He remarked that incoming Foreign Minister Song Min-soon, who was concerned that protracted and acrimonious SMA negotiations would be detrimental to the bilateral relationship, asked Cho to continue discussions on a longer-term framework while trying to craft a more immediate, short-term agreement under the existing arrangements.

14. (C) Ambassador Cho expressed interest in the impact of the reduced ROK SMA contribution for 2005-06 on USFK operations, commenting that the major reductions had come in the South Korean contribution to labor costs. He recognized that more should be done in this area and was willing to consider an agreement that would lift the ROK labor share back up to its previous level of 71%. Cho noted, however,

that this increase would only offset a perceived upcoming decrease in construction costs. Not decreasing construction costs would be difficult\*especially given how much the ROK is paying for the relocation of the Yongsan garrison and the ongoing drawdown in U.S. forces\*but paying for an increase would be even harder, he added. Thus, the overall Korean offer would change little from the current level of 680 billion Won. Cho stated that this bottom-up approach was the only way the government could defend a particular request before the National Assembly.

¶5. (C) Ambassador Loftis remarked that the U.S. side was confused by the ROK reference to specific sub-accounts. He explained that we expected to have the freedom to move money around among the various accounts and we will be considering the overall ROK offer instead of tying funds to particular functions. Addressing the U.S. perspective on those specific accounts, Loftis pointed out that the lower amounts in the current SMA had forced USFK to allow labor attrition to run its course and there no longer was any further cushion on labor levels. He emphasized that increased ROK support would be essential to rectify this situation.

¶6. (C) Ambassador Cho said there was some inconsistency as to how Yongsan relocation costs were applied to the NPSC calculation; some U.S. costs were included while ROKG expenses were left out. The U.S. side disputed this assertion, pointing out how some ROK expenses such as vicinity improvements were included and that many U.S. costs had been left out. Returning to construction expenses, Cho mentioned that he could consider maintaining them at the current level, implying that along with the increase in labor support, the ROK offer could rise to 720 billion Won. Loftis urged greater ROK flexibility, noting Congressional expectations for a genuine increase in the ROK share. A new Congress in January, he said, would undoubtedly have some tough questions as to why the U.S. was spending over \$4 billion annually on Korea-related expenses and would want to closely examine trends in the Korean contribution. Accordingly, we would expect at least a 780 billion Won contribution from the ROK. Cho replied that to even justify considering that number he would need some hard facts as to how it was developed and what it would pay for.

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AFTERNOON PLENARY SESSION  
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¶7. (C) After the 3-on-3 meeting, Ambassadors Loftis and Cho convened the plenary session and conveyed that although they made some progress, a further round of talks in Seoul would be necessary to conclude the negotiations. Ambassador Cho stated that he would aim to prepare something "very close to a final proposal" at this next round of talks and hoped that this proposal would result in a conclusion that was reasonable to both sides.

¶8. (C) For most of the remainder of the plenary session, the ROK side explained their calculations of direct and indirect contributions to NPSC. Lee Jeong-kyu, Director of MOFAT,s North American Division III, started by pointing out the categories with the largest differences in U.S. and ROK figures: foregone rent, utilities, rent, and vicinity improvements. In summary, Lee said that according to South Korean calculations, the ROK had paid 42.9% of total costs in 2005, which he claimed was 3% to 4% different from the U.S. figure.

¶9. (C) Ambassador Loftis responded by asking the Koreans if the ROKG was moving towards using percentages as the basis for SMA calculations and discussion. Lee replied in the negative, and continued to explain how the ROKG had surveyed forty-five institutions (in the central and local governments as well as in the private sector) during a four to five month period to come up with their financial figures.

¶10. (C) Ambassador Loftis next asked what kind of time constraints the Korean delegation faced in submitting a

proposal to their National Assembly. Ambassador Cho replied that the proposal for 2006 had to be submitted in early December 2005, but pointed out that even before this step, the proposal had to undergo an internal clearance procedure at MOFAT which could take two to three weeks. Kim Jung-han, First Secretary in MOFAT's Bilateral Treaties Division, interjected with the fact that last year, the entire process\*which included clearance procedures at both his ministry and at the Ministry of Legislation before being submitted to the National Assembly\*took nearly two months. Ambassador Loftis emphasized that getting it right, was more important than completing an agreement quickly; in response, Ambassador Cho reminded the room that the National Assembly could reject a late submission for inclusion in the following year's budget.

¶11. (C) In closing, Ambassador Cho pledged to submit a proposed amount of South Korea's contribution through the ROKG senior leadership in the next week, hopefully in time for a final round of negotiations in Seoul in late November. He agreed to phone Ambassador Loftis with that figure by November 24. The plenary session ended with both heads of delegation reiterating the importance of the bilateral alliance and expressing satisfaction with their joint efforts to reach a solution.

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AFTERNOON ONE-ON-ONE MEETING  
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¶12. (C) At the end of the day, Ambassador Loftis invited Ambassador Cho to a one-on-one meeting and presented the USG's rock bottom line of 752 billion Won for 2007 and 752 billion Won plus 3% for 2008. Loftis stated that although we preferred a third year at another 3%, we would accept a two year agreement on these terms. Ambassador Loftis explained that he did not want Cho to expend a lot of political capital to get the Korean proposal up to 720 billion Won, only to have us reject it as inadequate. He further stated that these were real bottom line figures, given to Cho in the interest of meeting his requirement to conclude an agreement by the end of the year. Loftis emphasized that he was providing Cho with our real redlines: if the Koreans met those figures we would have an agreement. If the Koreans returned with an offer below those figures, he could not predict how long it would take to get a U.S. response. Moreover, settling on anything less than 752 billion Won would require the U.S. to deliberate on what adjustments to our force structure would have to be made to meet the shortfall in Korean contributions.

¶13. (C) Ambassador Cho responded that these frank exchanges were very helpful for him to gain interagency support in Seoul. His initial instructions were to make a similar cut in the SMA as in the previous agreement; and if that was not possible, to try to negotiate a straight line rollover. Cho conceded that U.S. arguments, as well as the working group meetings on adjustments, made a powerful case to justify an increase in ROK contributions. Upon his return to Korea, Cho stated that he would argue that the ROK should look at getting back to the 2004 figure of 740 billion Won and perhaps higher, but made it clear that it would be very difficult for him to convince the others. Cho also pressed for a three-year agreement, and stressed the need for a fresh look at the whole SMA process to avoid lengthy and contentious negotiations.

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PARTICIPANTS  
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¶14. (SBU) U.S. Delegation:  
Ambassador Robert Loftis, Senior Advisor, Bureau of  
Political-Military Affairs (PM)  
Major General Duane Thiessen, Assistant Chief of Staff J5,  
USFK  
Mr. Joseph Yun, Political Minister Counselor, U.S. Embassy  
Seoul, DOS

Lieutenant Colonel Phillip Janzen, Military Advisor, PM, DOS  
Commander Thomas Herold, Judge Advocate General, s Corps  
Colonel Christopher Dinenna, Chief of J5 Strategy and Policy  
Division, USFK  
Mr. Mark R. Shoemaker, SOFA Secretariat, USFK  
Lieutenant Colonel William Conwell, Chief of J5 Policy  
Analysis Branch, USFK  
Ms. Mary Beth Morgan, Country Director for Korea, ISA/APA, OSD  
Mr. Andrew Hyde, ROK Unit Chief, Office of Korean Affairs, DOS  
Mr. Andrew Ou, ROK Desk Officer, Office of Korean Affairs, DOS

¶15. (SBU) ROK Delegation:

Ambassador Cho Tae-yong, Director General, North American  
Affairs Bureau, MOFAT  
Mr. Lee Jeong-kyu, Director, North American Division III,  
NAAB, MOFAT  
Colonel Chun In-bum, Director, U.S. Policy Division, Ministry  
of National Defense  
Mr. Chun Young-hee, First Secretary, NAD III, NAAB, MOFAT  
Mr. Kim Jung-han, First Secretary, Bilateral Treaties  
Division, MMOFAT  
Lieutenant Colonel Seo Young-kwang, Advisor, NAD III, NAAB,  
MOFAT  
Ms. Kim Sin-sook, Deputy Director, U.S. Policy Division, MND  
Mr. Jeong Yeon-doo, First Secretary, ROK Embassy in U.S.A.

¶16. (U) Ambassador Loftis has cleared this cable.  
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